CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 25, 1999

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The Affordable Education Act of 1999

As ordered reported by the Senate Committee on Finance on May 19, 1999

SUMMARY

The Affordable Education Act of 1999 would amend the Internal Revenue Code to provide various tax incentives for education. The Joint Committee on Taxation (JCT) and the Congressional Budget Office (CBO) have estimated that this bill would increase revenues by $274 million in fiscal year 2000 and by $70 million over the 2000-2004 period. CBO estimates that the bill would increase direct spending by $3 million over the 2000-2004 period. Because the legislation would affect revenues and direct spending, pay-as-you-go procedures would apply.

The bill contains one intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA). JCT estimates the cost of the new intergovernmental mandate would be less than $50 million in each fiscal year through the 2000-2004 period. The bill would impose eight new private-sector mandates. The costs of the new mandates would exceed the threshold ($100 million in 1996, adjusted annually for inflation) specified in UMRA in fiscal years 2000-2004.

DESCRIPTION OF MAJOR PROVISIONS

The Affordable Education Act of 1999 would modify education individual retirement accounts (IRAs) through provisions that would:

- Expand the definition of qualified education expenses to include elementary and secondary schools though December 31, 2003;

- Increase the annual contribution limit to $2,000 though December 31, 2003;

- Allow contributions for special needs beneficiaries above the age of 18;
- Allow corporations and tax-exempt entities to make contributions;
- Allow contributions until the time prescribed by law for filing a return for such a taxable year;
- Allow taxpayers to claim a HOPE or Lifetime Learning credit and to exclude amounts distributed from gross income through December 31, 2003; and
- Repeal the excise tax on contributions made during any taxable year in which contributions are also made to a qualified state tuition program on behalf of the same beneficiary.

The bill would modify qualified tuition programs to:

- Expand the definition of "qualified tuition program" to allow private institutions to provide prepaid tuition plans;
- Exclude from gross income distributions made after December 31, 1999, from qualified state tuition programs and after December 31, 2003, distributions made by any qualified tuition program; and
- Allow distributions from qualified tuition programs to be made on behalf of a student if a HOPE or Lifetime Learning Credit is claimed for that student.

The bill also contains other education tax incentives that would:

- Extend the tax exclusion of employer-provided assistance for undergraduate courses through June 30, 2004, and allow the exclusion for graduate courses beginning on January 1, 2000, through June 30, 2004;
- Eliminate the limit on the number of months for which interest paid on qualified education loans is deductible effective December 31, 1999;
- Eliminate the tax on awards under the National Health Corps Scholarship program and the F. Edward Hebert Armed Forces Health Professions Scholarship program;
- Increase the arbitrage rebate exemption from $10 million to $15 million on government bonds used to finance qualified school construction;

- Allow the issuance of tax-exempt private activity bonds for public school facilities; and

- Allow the Federal Housing Board to guarantee up to $500 million annually in school construction bonds through the Federal Home Loan Banks.

The bill contains revenue offsets that would:

- Reduce the carryback period for foreign tax credits to one year and extend the foreign tax credit carryforward to 7 years;

- Limit the use of the non-accrual experience method of accounting;

- Expand the reporting of cancellation of indebtedness income to non-bank financial institutions;

- Extend IRS user fees through September 30, 2009;

- Clarify the definition of "subject to" liabilities under section 357(c) of the Internal Revenue Code;

- Deny charitable contribution deductions for transfers associated with split-dollar insurance arrangements;

- Allow employers to transfer excess defined benefit plan assets to a special account for the health benefits of retirees through September 30, 2009;

- Impose a limitation on prefunding of certain employee benefits;

- Repeal the installment method for most accrual basis taxpayers; and

- Include the streptococcus pneumonia vaccine in the list of taxable vaccines.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the Affordable Education Act of 1999 is shown in the following table. The exclusion of employer-provided tuition assistance would affect social security taxes, which are off-budget.

	By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
CHANGES IN REVENUES											
Education Provisions											
On-Budget	0	-237	-590	-772	-923	-881	-656	-630	-670	-705	-723
Off-Budget	0	-95	-190	-223	-238	-170	-46	0	0	0	0
Subtotal	0	-332	-780	-995	-1,161	-1,051	-702	-630	-670	-705	-723
Revenue Offset Provisions	0	606	955	791	1,124	915	792	771	747	617	599
All Revenue Provisions											
On-Budget	0	369	365	19	201	35	136	141	77	-88	-124
Off-Budget	0	-95	-190	-223	-238	-170	-46	0	0	0	0
Total	0	274	175	-204	-37	-136	-90	141	77	-88	-124
CHANGES IN DIRECT SPENDING											
IRS User Fees	0	0	0	0	0	3	3	3	3	3	3
CHANGES IN SURPLUS											
On-Budget	0	369	365	19	201	32	133	138	74	-91	-127
Off-Budget	0	-95	-190	-223	-238	-170	-46	0	0	0	0
Total	0	274	175	-204	-37	-139	87	138	74	-91	-127

Sources: Joint Committee on Taxation and Congressional Budget Office.

BASIS OF ESTIMATE

The bill would extend through fiscal year 2009 the authority of the Internal Revenue Service (IRS) to charge taxpayers fees for certain rulings by the office of the chief counsel and by the office for employee plans and exempt organizations. CBO estimates that the extension of the IRS's authority to charge fees for such services, which is set to expire at the end of fiscal year 2003, would increase governmental receipts by $343 million over fiscal years 2004 through 2009, net of income and payroll tax offsets. CBO based its estimate on recent collections data and on information from the IRS. Because the IRS can retain and spend a portion of these fees without further appropriation action, CBO estimates that extending the authority would also increase direct spending by $18 million over fiscal years 2004 through 2009. All other estimates were provided by JCT.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in governmental receipts and outlays that are subject to pay-as-you-go procedures are shown in the following table. Only changes affecting on-budget outlays and receipts (that is, those in non-Social Security programs) affect the pay-as-you-go scorecard. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in receipts	0	369	365	19	201	35	136	141	77	-88	-124
Changes in outlays	0	0	0	0	0	3	3	3	3	3	3

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

JCT has determined the provision in the Affordable Education Act of 1999 that would add streptococcus pneumonia to the list of taxable vaccines would impose a federal intergovernmental mandate on state, local, and tribal governments as defined in the Unfunded Mandates Reform Act (UMRA). JCT estimates that the direct costs of complying with this intergovernmental mandate will not exceed $50 million in any fiscal year through the 2000-2004 period. CBO and JCT have determined that the remaining provisions of the bill do not contain intergovernmental mandates as defined in UMRA.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT has determined that the Affordable Education Act of 1999 contains eight new private-sector mandates through provisions that would:

- Reduce the carryback period for foreign tax credits to one year and extend the foreign tax credit carryforward to 7 years;

- Limit the use of the non-accrual experience method of accounting;

- Expand the reporting of cancellation of indebtedness income to non-bank financial institutions;

- Clarify the definition of “subject to” liabilities;
- Deny charitable contribution deductions for transfers associated with split-dollar insurance arrangements;
- Impose a limitation on prefunding of certain employee benefits;
- Repeal the installment method for most accrual basis taxpayers; and
- Include the streptococcus pneumonia vaccine in the list of taxable vaccines.

The direct costs of the new mandates would exceed the statutory threshold ($100 million in 1996, adjusted annually for inflation) established in UMRA in each of fiscal years 2000 though 2004. CBO and JCT have determined that the remaining provisions of the bill do not contain private-sector mandates as defined in UMRA.

Estimated Cost of Private-Sector Mandates

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2003	2004
Cost to the Private Sector	0	606	936	753	1,085	825

Source: Joint Committee on Taxation.

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